

DRAFT
1 April 1970

MEMORANDUM FOR: Executive Director-Comptroller

SUBJECT: Proposed CIA Retirement Act Amendments

1. The attached legislative package proposing amendments to the CIA Retirement Act combines the submissions of the Director of Personnel and the Director of Finance. The proposals have been reviewed by the General Counsel and have the concurrence of the Deputy Director for Support.

2. Six of the ten amendments proposed by the Director of Personnel have been cleared by the Bureau of the Budget twice, for transmittal to the 89th and 90th Congresses. In 1966 they were approved by the House Armed Services Committee and passed the House. These proposals are explained in Tab A.

3. Four new proposals would: (1) repeal the present ceiling on number of retirements, (2) liberalize the provisions regarding prior service, (3) liberalize eligibility for discontinued service annuities, and (4) tighten provisions for the termination of disability annuities. They are explained in Tab B.

4. This office has reservations on two of the four new proposals:

a. Reduce age for discontinued service annuity. The eligibility age in our Act is based on the Civil Service provision. It was inserted by Ed Braswell, of the Senate Armed Services Committee staff, in the face of our urgings that the Foreign Service age was more reasonable. (Like Foreign Service, the mandatory retirement age under our Act is 60, as compared to 70 under Civil Service.) While our Act is a hybrid of the Civil Service and Foreign Service systems, we should avoid appearances of selecting the most liberal provision from each system, without regard to the real needs of the Agency. It is difficult to demonstrate the Agency need being served by liberalizing benefits for those who foreshorten their Agency careers, after as little as five years of service.

b. Terminate disability annuities on restoration of earning capacity.

This proposal for tightening instead of liberalizing the present benefit structure, in addition to its substantive merit, is good psychology. However, the General Counsel believes that the Director presently has authority to accomplish the same result by

regulation and that we would lose our current flexibility by its enactment. Every item in a bill raises a potential stumbling block to favorable action. Specific case examples on the operation of this provision might have the effect of publicizing an abuse which we propose to correct. Lastly, it could cause mischief for State by bringing attention to a Foreign Service provision which the Agency maintains is too liberal. These factors appear to outweigh the psychological dividend of the proposal. of the proposal.

5. The remainder of the legislative package is a program for assuring that the CIA Fund has adequate resources to meet future financial requirements. The Fund will be depleted in 1990 if we continue to rely solely upon present employee/Agency contributions, transfer of employee contributions and interest income. The proposals concerning funding are explained in Tab C.

6. BOB has requested the Agency to submit recommendations concerning the financing of the system's present and future funding deficiencies; based on the results of the recently completed actuarial study of the CIA system. The proposed financing program is in response to this request. The other proposed amendments have negligible cost

impact on the CIA Fund, but BOB could insist, quite rightly, on reviewing financing proposals in conjunction with or before considering any further changes in the CIA retirement system.

7. It is recommended that the Director approve the submission of the attached legislative program to the Bureau of the Budget for clearance prior to transmittal to the 91st Congress by signing the transmittal letters to the Speaker and the President of the Senate.

OLD PROPOSALS

- Adopt the more liberal Foreign Service provision relating to salary retention when an annuitant is reemployed by the Government (full salary plus annuity up to former CIA salary).
The Civil Service based rule in our Act pays full annuity and reduces the new salary by the amount of the annuity.
- Authorize a retiree's annuity to commence the day after separation, like Civil Service, rather than the first day of the month following separation.
- The remaining four old proposals enlarge the definition of the term "child" and clarify the termination and commencement date of a child's annuity to conform to changes approved for the Civil Service system during the 89th Congress.

NEW PROPOSALS

- Repeal the present limit on the number of retirements authorized. (The limit of 400 from 1 July 1969 to 30 June 1974 probably will be reached in last half of 1972.
- Adopt the more liberal Civil Service provision for crediting prior civilian service not subject to deductions (option to credit service with small reduction in annuity). The Foreign Service based rule in our Act requires payment to cover deductions and interest due or forfeiture of the time involved.
- Adopt the more liberal Foreign Service age for discontinued service annuity (annuity starts at age 60 for a former participant who separates from the Agency with at least five years of service but before he is eligible for an annuity). The annuity starts at age 62 under our Act's Civil Service based rule.
- Adopt the tighter Civil Service provision for terminating disability annuities (if a disabled annuitant's earnings over two years reaches 80 percent of the salary of his former position). The individual's fitness for Agency duty, not earning capacity, is the determining

FUNDING PROPOSALS

- Immediately increase the CIA Fund by the transfer of some \$20 million from the Civil Service Fund, representing the Government contribution paid principally by this Agency on behalf of employees whose benefits now will be paid out of the CIA Fund and not the Civil Service Fund. The Government's contribution would also follow the employee when he transferred from the CIA system to another Federal-salary retirement system. This proposal also has been cleared twice by the Civil Service Commission and the Bureau of the Budget. (It was transmitted to the 89th and 90th Congresses, and favorably acted upon by the House in the 89th Congress.)
- Adopt the same comprehensive funding program enacted for the Civil Service and Foreign Service systems by the 91st Congress, authorizing:
 - a. Direct transfer by Treasury to the Fund of interest on unfunded liability (excess of present and prospective obligations over present and prospective assets); and the cost of annuity payments attributable to military service.

b. Appropriations for 30 year amortization of newly created unfunded liability (resulting from future statutory benefit liberalization or salary increase).

Payment of interest on unfunded liability and military credit payments will extend the solvency of the Fund from 1990 to 2033. The transfer of Government contributions to the Fund would extend solvency for 16 years to 2049. This suggests a need for supplemental funding in addition to the proposed program, which the Director of Finance proposes to review when the next actuarial study is completed in 1974.

If the foregoing proposals are not adopted, and as an alternative, we might have to rely upon the annual appropriations process to maintain the Fund on a sound basis. This approach, however, has serious drawbacks in subjecting the payment of annuities to the annual appropriations process. It would also introduce a substantial, inflexible, annual item into our appropriations by 1990, beginning at about \$25 million and rising quickly to about \$47 million in 2008.